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CONSUMPTION AND SAVING PATTERNS OF THE FOREIGN-BORN IN CANADA

by

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CONSUMPTION AND SAVING PATTERNS OF THE FOREIGN-BORN IN CANADA

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Immigration and Consumer Demand

Although Canada has experienced substantial immigration since the end of World War II, economists are still uncertain what the overall effects of these flows have been on the Canadian economy. Most of the research that has been done focussed on labour market effects, and much of the public discussion has been on its effect on labour supply either in total or for specific labour markets. Also of interest are the ways in which immigration and a change in the proportion of the population that is foreign-born have affected the level of aggregate demand, the demand for labour and the economy, but these have received much less attention.

In the recent years of relatively high unemployment and a weak labour market in Canada, increasing the labour force via immigration has been questioned and, in fact, restrictions were put on independent immigrants and assisted relatives in 1982. Implicit here is the assumption that immigrant families take mc jobs than they create through expenditures and through expenditures made on their behalf by, for example, governments. Therefore, the relative importance of the demand and supply side effects of immigration and the foreign-born is an important issue. In this debate it is useful to know more about the total expenditure and saving patterns of the foreign-born, as well as their allocation of total expenditure (or total income) to various expenditure items.

Assume for the moment that the foreign-born have different total or aggregate spending habits than the Canadian-born: in other words, what difference does it make to standard theoretical and empirical models of the Canadian economy if this difference is not included in the analysis (as is often now the case)? In simple terms, at each level of real gross national product, the level of consumption will be too low if this difference is not accounted for. Or, if this difference is included, real consumption will be higher at each level of real disposable income; real aggregate demand will be greater and all else the same; real gross national product and the stimulative effect will be higher. In the simplest case, where everything remains the same, except the proportion of the population that is foreign-born increases, then aggregate demand will increase, real gross national product will rise, the unemployment rate will fall, and interest rates and prices will likely increase, if the foreign-born consume more out of each real disposable income than the Canadian-born. Since the total population has been held constant, real gross national product per capita will also rise. The opposite effects follow if the foreign-born expend less at each level of real disposable income. It is clearly important to find out if the behavioural pattern of the foreign-born differs from the Canadian-born, and to incorporate this in the models of the economy.

The above results are slightly different if it is postulated that the population and labour force, as well as a change in the proportion of the population which is foreign-born, rise because of immigration. Here different spending habits, if recognized, will raise real aggregate demand, real gross national product, prices and interest rates. But the effects on the unemployment rate and real gross national product per capita are indeterminant. Since both the labour supply and labour demand (through aggregate demand) increased, unemployment may rise or fall; since both population and real gross national product increase, real gross national product per capita can rise or fall. These effects are empirical issues and cannot be settled by theory alone. In any case, the reason the average propensity of the foreign-born to consume is important to resident (or Canadian) job creation is that the greater the proportion of current income that is spent, the greater is the job creation potential of any given income. Therefore, if the foreign-born's average propensity to consume exceeds that of the Canadian-born, unemployed Canadians may be helped even if some immigrants initially take jobs that would have gone to Canadians.

Although the comments so far relate to total consumption (or expenditure), it is just as important to know the allocation of this total among various consumer expenditure categories. This is relevant to (1) the sectors whose demand will be relatively stimulated by greater immigration and a larger foreign-born population and (2) the employment-generating effects of immigration that affect particular unemployed Canadians because of the implied rise in job vacancies in some sectors. The following example is merely an illustration and does not necessarily bear any resemblance to the Canadian situation. If the foreign-born s: nd a relatively high proportion of their income on food, clothing and housing, and spend a relatively low proportion on household equipment, transport and education, demand will be stimulated in the former but less so in the latter. Unemployed Canadians, looking for employment in the former, will be relatively advantaged from immigration and vice-versa for the latter. If it is true that relatively unskilled persons are more likely to be employed in the food, clothing and housing sectors, this group – all else the same – will be advantaged from immigration.

Why is being a foreign-born household likely to be important in terms of the household's observed behaviour? If there is no reason to expect a foreign-born household to behave differently from any other, then there is no point in studying immigrant households. If household consumption and saving behaviour are caused by the cultural background of household members, as well as by current circumstances such as those relating to age, gender, education, marital status, income, etc., then place of birth and the process of assimilation will be important determinants of behaviour that distinguish the foreign-born from the Canadian-born. Failure to distinguish place of birth and period of time in Canada would mean failure to distinguish any differences in behaviour. The important issue is to separate instances in which being foreign-born is important in itself from those in which foreign birthplace is only correlated with the basic causes of expenditure differences such as age, gender, occupation, income, etc.

J. Nightingale (1978) suggests two reasons why the consumption behaviour of the foreign-born may differ from that of the Canadian-born. He refers to them as the transition effect and cultural differentia. The transition effect refers to modifications to usual consumption or saving behaviour caused by the transfer of a household from one country to another country. For example, immigrants may transfer their assets to

Canada as cash, and they often must acquire household goods such as furniture and appliances. While these are being purchased, other purchases will be a smaller proportion of total expenditure. This transition effect is caused directly by migration. The second reason relates to the foreign-borns' differing cultural backgrounds that influence their spending habits at least during their initial years in Canada.

To put this discussion in a wider demographic context, it should be recognized that, if decisions about how much income to consume and how to allocate total consumption expenditure among various items are made by individual economic agents that are usually households, aggregating up to total Canadian consumption requires information on the demographic structure of Canada that includes the foreign-born versus Canadian-born makeup. Aggregate consumption for all goods and for specific goods and services is influenced by a complex interaction of variables such as income and demographic effects. If economic growth is slower, then demographic effects may become more important than income effects. Greater awareness of the relationship between consumption and demographic changes is required. Research can continue either by using aggregate relationships that add in demographic variables, such as net immigration, as additional explanatory factors or by estimating demand and consumption relationships at the household level and then aggregating up using demographic weights. In both cases, the link between the economy and demographic changes is recognized explicitly and examined systematically. This is a key element in any demographic review that hopes to establish any level and structure for Canada's future population. An important element is the impact of the foreign-born on consumption behaviour.

Some Literature: Consumption and Saving Patterns of the Foreign-Born

There are few analytical studies on the Canadian situation that focus on consumption and saving patterns of the foreign-born by themselves, or in comparison to the Canadian-born. William Marr (1973, 1976), following the research on Australia done by Jan Kamenta (1966) and J.H. Duloy (1967), assumed that the consumption patterns of the foreign-born in Canada would be different from the Canadian-born. If immigrants differ from the Canadian-born in some important economic characteristics, such as asset holdings or age structure, then they are likely to have different saving and consumption functions than the Canadian-born for a number of years after their arrival. Marr argues that net immigration influences the time path of indicators of aggregate economic activity because of the increment to population and because of the distinctive features of immigrants.

Marr looks specifically at the average expenditure per capita of several macroeconomic variables. He assumes that the additional or marginal expenditure resulting from a change in another variable (such as per capita income) is the same for immigrants, emigrants and the Canadian-born. Marr anticipates differences in average expenditure per capita between immigrants and the Canadian-born for consumer non-durable goods, consumer durable goods, consumer services, housing, imports of consumer goods and services, gross investment in plant and equipment, and imports of non-consumer goods – these are all demand elements. He also examines supply or labour market behavioural differences, but these will not be pursued here.

Marr's model presents the foreign-born as perhaps having different average expenditure per capita on the above goods and services upon arrival in Canada and for several years thereafter, but that their expenditure patterns gradually approach the patterns of the Canadian-born. His model attempts to discover how long annual net permanent arrivals affect the above-mentioned behavioural functions, and what the time path of adjustment to the Canadian average looks like. In fact Marr says nothing about this time path because he assumes that the foreign-born are different up to the year in which they "adjust" to the pattern of the Canadian-born. In that year the pattern of the foriegn-born becomes the same as the Canadian-born. Marr does find differences in average expenditure between the two birthplace groups, and a clear indication of the length of time it takes for behaviour to conform to Canadian norms. For consumption of non-durables, durables and services, the periods are 5, 3 and 2 years respectively. The adjustment period is 5 years for personal expenditure on imports, while housing expenditure differences persist for 6 years. The adjustment period for investment in plant and equipment is short – one year.

The differences that Marr finds are not strictly between the foreign-born and the Canadian-born, but are the outcome of the interaction between migrant flows and the working of the economy. For example, the inflow of immigrants may affect the aggregate behaviour of the Canadian-born population; instead of an initial, say, higher expenditure per capita on housing for the foreign-born gradually falling to equal the expenditure pattern of the Canadian-born, the latter's pattern actually may have risen to meet the pattern of the foreign-born (Nightingale 1978). But Marr's results do show significant behavioural differences between birthplace groups, that exists for a number of years, and a measurable impact on the aggregate Canadian economy which is likely due to the behaviour of immigrants. He incorporates his migration-augmented behavioural relations in a small macroeconomic model of the Canadian economy, and simulates the influence of various levels of net immigration on key economic variables for the years 1950 to 1967. This may be the only macro-model for Canada which explicitly includes differences in consumption (or demand) of the foreign-born in its behavioural relationships.

With the present state of data-gathering in Canada, only cross-sectional data allow a researcher to see whether different birthplaces are associated with different expenditure and saving behaviours. Marr and Douglas McCready (1986) use an expenditure and income survey for 1982 to examine the question of these differences, as well as among the foreign-born by length of time in Canada and by foreign country of birth. They find significant differences in the propensity to consume certain consumer expenditure items between the foreign-born and the Canadian-born. In particular, the foreign-born allocate a significantly higher proportion of their income to the important categories of food and shelter, and less to clothing. No difference is found for expenditures on household items or on transportation. When several other consumption categories are examined, significant differences in expenditure patterns are discovered. They will not be noted in detail here, however, since these categories make up relatively small proportions of total income. The important conclusion to note is that significant differences do exist.

Marr and McCready divide the foreign-born in the sample into a number of periods of immigration (before 1946, 1946-1965, 1966-1975 and 1976-1982) and compare each

sub-group to the Canadian-born, as well as to each other. Some interesting differences are discovered. Generally speaking, the more recent the period of immigration, the higher is the proportion of income devoted to expenditures on food, shelter, household items, clothing and transport. The most recent group of immigrants, in particular, allocate much larger proportions of their total income to eac· of these major expenditure categories. If this pattern continues to hold true into the fu..re, when net immigration could easily make up a larger percentage of the change in Canada's population, there could be significant structural changes within the consumer categories.

Because of the way in which the data were put on the computer tape for distribution, Marr and McCready can calculate propensities to consume by country of birth; however, they are unable to carry out tests of significance or to explore the reasons for any differences they find. One of their findings is that those born in the United States or Northern-Western Europe tend to have consumption patterns that are closer to the Canadian-born than do people born in Southern Europe, Asia or South-Central America. This implies, but does not prove, that cultural differences and background differences translate into different allocations of consumer expenditure. Immigrants from Asia and South-Central America tend to allocate higher proportions of their total income to food, shelter, household items, clothing and transportation than do those from Northern-Western Europe. Immigrants from Southern Europe devote a higher percentage of income to food, clothing and transportation than do those from Northern-Western Europe, but the opposite is true for shelter and household items. Several other comparisons are found in their working paper, but the above comments suffice to illustrate that there are different consumption propensities among birthplaces.

The differences that Marr and McCready find between the propensities of the Canadian-born and the foreign-born may be due to two generic causes: (1) since consumption patterns differ by the age, income, education, gender, occupation, etc. of the people involved, the foreign-born may be different from the Canadian-born in one or more of these characteristics and that would, in a sense, explain the consumption differences; and (2) cultural or "social" (or assimilation) factors that impart differences to consumption patterns. Cultural and background characteristics may impart permanent consumption differences to the foreign-born, while assimilation factors could be temporary, so that as the length of time spent in Canada increases, the consumption differences disappear. Marr and McCready have extended their paper to see which of these causes might be at the root of the differences described above. In conclusion, although some of the differences in the propensitities between the Canadian-born and the foreign-born disappear when age, income, education, gender, family size, etc. are held constant, many of the differences still remain, so that expenditure categories now show differences between birthplace groups where no difference occurred before. This kind of causal analysis is still incomplete and suggests other research extensions.

A Research Agenda

The future or possible research areas that will be mentioned here refer only to differences between consumption and saving propensities of the Canadian-born and the foreign-born; of course, once any differences have been established, research should be

undertaken on how such differences influence Canadian society, and its economy in particular. This is predicated on the belief that the foreign-born will, over the next few years, constitute a larger and larger percentage of the growth in Canada's population because fertility rates will remain relatively low; this now appears likely. As the foreign-born make up a larger percentage of the growth in Canada's population, their consumption and saving differences will impart significant influences on Canada's economy – both on the demand and supply sides. Research could usefully be carried out at two levels: (1) the aggregate consumption and saving relationships; and (2) the disaggregate patterns of more specific expenditure (or demand) items.

At the first level, it has not been determined yet whether Canada's foreign-born have different ratios of total consumption (or expenditure) and of total saving to disposable income. Do the foreign-born have a higher or lower average propensity to consume and to save than do the Canadian-born? This is an important parameter in most macroeconomic models of the Canadian economy that are now used to forecast and to simulate alternative scenarios about states of the world. These parameters may currently be inappropriate if the foreign-born have significantly different propensities, and will matter more with higher immigration relative to natural increase. The data in Statistics Canada's survey of family expenditures could be used to establish the presence of a different average propensity to consume and to save. The most recent survey is for 1984, but those for 1982 and 1978, at least, should be used to replicate any analysis that is done for the most recent survey. In this entire area, where little is known, it is more important to test the variation in results by as much replication as possible. This data source enables consumption and saving functions to be calculated for the foreign-born also by time spent in Canada or by period of immigation and, in some cases, by country of birth. The previous section of this report has indicated that there are important differences at the disaggregate level by period of immigration and by birthplace; these differences could appear at the aggregate level also.

Once differences have been established among the birthplace groups, these differences should be "explained" in terms of whether they are due to (1) factors such as age, education, gender, etc. or (2) cultural-background. This also spills over into the important question of whether such saving and consumption differences will disappear as the foreign-born spend more time in Canada. The data by period of immigration will help to answer this implied question and, if cultural differences "explain" them, then time in Canada is less likely to reduce the initial differences.

At this high level of aggregation most macroeconomic models contain consumption or consume expenditure relationships or functions. The question is: Are they affected by demographic variables in general, or the foreign-born in particular? The analysis mentioned above will address this question using data on individuals, but econometric models define consumption and saving on a national accounts basis. Using these definitions, aggregate functions should be estimated using demographic variables as independent variables. R.A. Williams (1982) has done this for Australia and Marr (1973) did some of this for Canada, but his study stopped in 1967 – twenty years ago. If the importance of the foreign-born can be established at this level, then the obvious next step is to try to incorporate these influences in a macroeconomic model of Canada's economy. At the present time, the well-known models do not have such influences, and it would be a

major project to include them because this would mean changing the model's functional or behavioural relationships. A survey needs to be carried out of the demographic sub-structures of Canada's main macroeconomic models as well, so that they can be modified, if required, in order to examine, through simulations, the effect of changing the foreign-born component of the models.

At the second level of greater disaggregation, which Marr and McCready (1986) have begun, a number of research avenues still remain open. Since their study is the only one to date that looks at the disaggregate expenditure patterns of the foreign-born and the Canadian-born, their results need to be tested for stability. This should be done for the survey of family expenditure for 1984, and perhaps for an earlier one, such as 1978. These data are useful to establish whether the foreign-born allocate different proportions of their income to quite disaggregate consumer expenditure items. If these patterns persist, then an enlargement of the inflow of foreign-born can be projected onto various consumer goods markets. Or a change in the foreign-born/Canadian-born composition of the total Canadian market for these goods can be simulated into changes in demand for various consumer goods and services. The data set enables research to sub-divide the foreign-born by period of immigration and by birthplace, as well as to investigate the causes of differences among birthplace groups, in the same manner as was noted above for aggregate consumption and saving.

This information can be used in the following way. An inflow of foreign-born takes place. Assume that they experience some level of average income. Use the expenditure proportions above to estimate the effect on various sectors that produce consumer goods and services; this could be done with various assumptions about the birthplaces of the new foreign-born, as well as their age, gender, income, marital status, etc. distributions. This exercise would provide an idea of which production sectors would be stimulated by the new arrivals. An obvious problem with this analysis is the assumption that the new foreign-born earn some income or that they find employment. There is still a great deal of debate about whether more immigration would raise or lower per capita incomes. Ideally, then, such an exercise should be part of a larger simulation experiment using a macroeconomic model that contains labour market/production-income functions as well as demand-expenditure elements. But even without such a large undertaking, some useful, if cautious, conclusions could be made from the more modest partial (or expenditure) study alone. Both partial and more complete macroeconomic model simulations have been carried out for Australia (see J. Nightingale, R. Williams, J. Perkins and the Committee for Economic Development of Australia); links should be established with the Australians for two reasons: (1) for what can be learned from their attempts to investigate all of these issues, and (2) for similarities between the Canadian and Australian economies. This extends even to the type of immigration policies that the two countries engage in.

Canadian authorities have recently decided that immigration of entrepreneurs should be given a high priority. This group is especially important in the context of saving flows because they tend to bring large sums of savings with them; these savings are directly translated into investment goods, with obvious stimulative effects on the Canadian economy. Manpower and Immigration, as well as government departments in Alberta and British Columbia, have made a start at looking at the characteristics and

problems of these entrepreneurial immigrants, but time series as well as cross-sectional data are needed. This is a major study in itself. What businesses are established; how many jobs are created; what sectors are affected by the expenditure of these businesses; what problems do these entrepreneurs encounter once in Canada? These are important questions that the Federal Government should be interested in examining, and they all spill over onto the issues of the foreign-borns' expenditure and saving patterns.

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